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RECD IN
OFFICE OF THE
EXECUTIVE SECRETARY
30 APR 1 10 49 AM

March 31, 1998


Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Application of the Electric Power Board of Chattanooga
for A Certificate of Public Convenience and Necessity
to Provide Intrastate Telecommunications Services --
Docket No. 97-07488

Dear David:

We are enclosing an original and thirteen (13) copies of the
Reply Brief of the Electric Power Board of Chattanooga.

Sincerely yours,



William C. Carriger
For the Firm

WCC/as
Enclosure
cc: Parties of Record
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BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

REC'D TN
REGULATORY AUTH.

'98 APR 1 AM 10 49

IN RE:)
)
APPLICATION OF ELECTRIC)
POWER BOARD OF CHATTANOOGA)
FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY)
TO PROVIDE INTRASTATE)
TELECOMMUNICATIONS SERVICES)

Docket No. EX-07488

OFFICE OF THE
EXECUTIVE SECRETARY

REPLY BRIEF OF THE ELECTRIC POWER BOARD OF CHATTANOOGA

This Reply Brief is submitted on behalf of the Electric Power Board of Chattanooga ("Electric Power Board") in response to the Pre-Hearing Brief filed by NEXTLINK, Tennessee, LLC ("NEXTLINK").

SUMMARY

NEXTLINK, in its Pre-Hearing Brief, argued that the Electric Power Board should be denied its Application for a Certificate of Convenience and Necessity on the grounds that it has not shown that it will avoid cross-subsidizing its telephone services with revenues and resources from its electric operations. The Electric Power Board strongly disputes this claim. To the contrary, the Electric Power Board has shown that it will comply with prohibitions against cross-subsidization.

NEXTLINK suggests that the Electric Power Board in this proceeding must make an extraordinary showing of compliance before the fact. It appears that NEXTLINK is asking the Tennessee Regulatory Authority to require of the Electric Power Board a level of proof not required of NEXTLINK or any applicant before such applicants were awarded their Certificates of Convenience and Necessity.

DISCUSSION

The Electric Power Board's position on most of the issues raised in NEXTLINK's Pre-Hearing Brief has already been discussed in the Electric Power Board's Pre-Hearing Brief, and the Electric Power Board will not burden the record by reiterating that discussion here.

NEXTLINK, however, cites Electric Power Board's response to the Tennessee Regulatory Authority Staff's request as an indication that the Electric Power Board does not plan to comply with the statutory requirements against cross-subsidization. The Electric Power Board disagrees with NEXTLINK's contentions and would show that its response and its pre-filed testimony demonstrate that the Electric Power Board does intend to follow the statutory requirements. NEXTLINK also failed to include in its Brief the pertinent information from the Electric Power Board's response to Request No. 3 in the same letter cited in NEXTLINK's Pre-Hearing Brief. This response shows not only Electric Power Board's willingness to comply with any and all requirements against cross-subsidization, but also shows the Electric Power Board's ability to make the necessary accounting entries. The response further shows that the Electric Power Board's plans to do so, not only to meet the requirements of Tennessee Code Annotated § 7-52-402, but also to meet the requirements imposed upon it by the Tennessee Valley Authority.

For the Director's ready reference, the Staff's request and the Electric Power Board's response found in Ron Fugatt's letter of December 9, 1997, to Scott Trout of the Tennessee Regulatory Authority's Telecommunications Division state:

3. Does EPB plan to fully allocate all of its common costs between power and telecommunications so that no cross-subsidization will occur? If so please explain how these costs will be allocated. If not, explain EPB's rationale for allowing power customers to subsidize EPB's venture into telecommunications service.

Response: Yes, EPB plans to allocate its common costs between power and telecommunications so that no cross-subsidization will occur. EPB's electric system already has in place a procedure for allocating costs for services, equipment, labor, facilities, supplies, and administration. EPB has developed a main-frame computer based accounting ledger system that allows costs to be assigned and allocated according to cost or responsibility centers. This current assignment and allocation process is and has been necessary so that all costs could be assigned to the applicable Federal Energy Regulatory Commission (FERC) Standard Accounting Codes. Each year, EPB reports the various FERC costs to the Tennessee Valley Authority (TVA).

In addition to TVA reporting requirements, cost allocations are an essential part of EPB's operations and accounting practices. Each year EPB processes approximately 5,000 work orders for construction requests. Each cost element for these construction requests is allocated to the appropriate FERC plant, operation, or maintenance expense account. Customer contributions in aid of construction are also allocated to these accounts. Each year, EPB also processes approximately 500 sales orders for customer requested work or for property damage. In order to ensure that the responsible party (rather than the electric system customers as a whole) bears the costs associated with the sales orders, EPB generates a sales order that bills the responsible party for the appropriate costs from each of the applicable FERC accounts.

EPB will establish a similar system for its telecommunications division in accordance with generally accepted accounting principles by assigning telecommunications division costs to the appropriate Federal Communications Commission (FCC) Rule 32 Standard Accounting Codes. EPB's current ledger system is capable of assigning costs between the electric division and the telecommunications division.

TVA will review EPB's method of cost allocation for its telecommunications division to ensure that there is no cross-subsidization in the same manner as TVA currently does with several municipal electric systems having one or more additional utility services, such as water or natural gas service.

In addition, Rose Baxter in her pre-filed testimony furnishes additional details of the Electric Power Board's accounting procedures.

CONCLUSION

The Electric Power Board trusts that the Authority will not impose upon the Electric Power Board an extraordinary level of proof not normally required of applicants for a Certificate of Convenience and Necessity and that the Tennessee Regulatory Authority will grant the Electric Power Board its Certificate after determining the Electric Power Board meets the requirements of Tennessee Code Annotated § 65-4-201(c).

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing pleading on behalf of the Electric Power Board of Chattanooga, via United States mail, first class postage prepared and properly addressed to the following:

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This 31st day of March, 1998.


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